

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 /095 W
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P 290700Z JUN 77

FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9006
TREASURY DEPT WASHDC PRIORITY

UNCLAS SECTION 1 OF 2 TOKYO 9694

TREASURY FOR LAITIN, WIDMAN AND SYVRUD

E.O. 11652: N/A

TAGS:EFIN, JA

SUBJECT: PRESS REPORTS OF U.S. REQUEST FOR JAPAN TO SELL OFFICIAL
RESERVE EARNINGS

1. JAPANESE LEADING ECONOMIC NEWSPAPER, NIHON KEIZAI, GAVE
TOP PLAY IN JUNE 29 MORNING EDITION TO ARTICLE REPORTING THAT U.S.
HAS REQUESTED JAPAN SELL INTEREST EARNINGS ON FOREIGN EX-
CHANGE RESERVES IN TOKYO FOREX MARKET. ARTICLE REPORTED
THAT U.S. HAD MADE SIMILAR REQUEST EARLIER BUT ISSUED
TO FOREFRONT AT RECENT OECD MEETING IN PARIS. NEWS REPORT
ALSO NOTES THAT SALES OF INTEREST EARNINGS INTO FOREX MARKET
WOULD BE A CHANGE FROM RECENT POLICY OF REFRAINING FROM
INTERVENTION IN ORDER TO AVOID ACCUSATIONS OF "DIRTY FLOAT."
CITING REPORTS THAT WEST GERMANY, SWITZERLAND AND NETHERLANDS
SELL INTEREST EARNINGS ON THEIR FOREX RESERVES IN LOCAL FOREX
MARKETS, ARTICLE SAYS JAPANESE GOVT IS STUDYING U.S. REQUEST
AND HINTS AT POSSIBLE POSITIVE RESPONSE TO IT. NEW DIR GEN
INTERNATIONAL FINANCE BUREAU DAN TOLD EC MINISTER JUNE 28
THAT HIS OFFICE WAS GIVING EXPEDITED ATTENTION TO SUBJECTS
U.S. HAD RAISED. FOLLOWING IS COMPLETE TEXT OF
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NIHON KEIZAI ARTICLE.

2. BEGIN TEXT:

ACCORDING TO WHAT WAS REVEALED BY A GOVERNMENT
SOURCE ON THE 28TH, THE US GOVT RECENTLY DEMAND THAT JAPAN
RELEASE (SELL) ON THE MARKET THE TOTAL AMOUNT OF THE

OPERATION PROFIT (FOREIGN CURRENCIES) OF FOREIGN CURRENCY RESERVES, WHICH TOTALS A MONTHLY AMOUNT OF A LITTLE LESS THAN \$100 MIL ON AN AVERAGE, INSTEAD OF STORING THEM UP. THIS SHOWS THAT THE U.S. HAS TAKEN A STEP INTO THE JAPANESE CURRENCY POLICY, URGING JAPANESE CURRENCY OFFICIALS TO "LEAD TOWARD A HIGH-YEN POLICY", WHILE THE LATTER IS TAKING THE POSTURE THAT EVEN "LEAVING THE YEN ON THE HIGH-VALUE LEVEL" WILL BE UNAVOIDABLE. IN RESPONSE TO THIS DEMAND, THE FINANCE MINISTRY HAS STARTED STUDING CONCRETE MEASURES ALL OF A SUDDEN, PARTLY BECAUSE OF THE SITUATION WHERE SOME OTHER SURPLUS NATIONS, SUCH AS WEST GERMANY, SWITZERLAND, AND THE NETHERLANDS, HAVE ALREADY SOLD ON THE FOREIGN EXCHANGE MARKETS THE PORTION OF FOREIGN CURRENCY INCOME OBTAINED THROUGH THE OPERATION OF FOREIGN CURRENCY RESERVES.

GOVERNMENT HASTENS MEASURES.

THE U.S. DEMAND CAME TO THE FORE, AT THE OECD MINISTERIAL COUNCIL MEETING WHICH WAS HELD IN PARIS ON THE 24TH AND 25TH. ACCORDING TO A GOVT SOURCE, U.S. SECRETARY OF THE TREASURY BLUMENTHAL DIRECTLY ATTACKED JAPAN'S SURPLUS IN TRADE AND ITS LOW-YEN POLICY AND CRITICIZED IN A SHARP TONE OF VOICE, AS FOLLOWS: "JAPAN IS JUST STORING UP THE OPERATION PROFIT OF FOREIGN CURRENCY RESERVES AND DOES NOT RELEASE IT ON THE MARKET. CABINET MEMBERS OF

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VARIOUS COUNTRIES, DON'T YOU THINK THIS IS STRANGE?"

EPA DIRECTOR GENERAL KURANARI, WHO WAS PRESENT AT THE OECD MINISTERIAL COUNCIL MEETING AS A JAPANESE DELEGATE, CONFIRMED THE U.S. DEMAND, AT HIS PRESS CONFERENCE ON THE 28TH. HE REVEALED THAT THE U.S. CRITICISM OF JAPAN WILL BECOME MORE SEVERE IN THE FUTURE.

THE JAPANESE CURRENCY OFFICIALS HAVE REFRAINED AS MUCH AS POSSIBLE FROM INTERVENING IN THE SALES ON THE FOREIGN CURRENCY MARKET, IN RESPONSE TO THE CRITICISM FROM OVERSEAS ON A "DIRTY FLOAT." WHEN VIEWED FROM THE U.S., HOWEVER, STORING UP THE FOREIGN CURRENCIES AS THE OPERATION PROFIT OF FOREIGN CURRENCY RESERVES, INSTEAD OF RELEASING THEM TO THE MARKET, IS CONSIDERED "LEADING TO A LOW-YEN POLICY" (TREASURY DEPT SOURCE). THE USG EARLIER EXPRESSED DISSATISFACTION WITH THIS WAY OF HANDLING THE MATTER BY JAPAN.

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9007

TREASURY DEPT WASHDC PRIORITY

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ACCORDING TO A FINANCE MINISTRY SOURCE, THE PRESENT FOREIGN CURRENCY RESERVES HELD BY JAPAN TOTAL AS MUCH AS \$17,200 MIL (AT THE END OF MAY). AS A RESULT OF OPERATING THEM FOR THE PURPOSE OF PURCHASING U.S. TREASURY DEPT BONDS AND USING THEM FOR DEPOSITS AT FOREIGN BANKS, AN ANNUAL AMOUNT OF ABOUT \$1,000 MIL WILL ACCURE AS AN OPERATION PROFIT.

THE U.S. ASSERTIONS ARE THAT IF JAPAN RELEASES THE OPERATION PROFIT TO THE MARKET, INSTEAD OF STORING IT UP AS FOREIGN CURRENCY RESERVES, DOLLARS WILL BE OVER-SUPPLIED ON THE FOREX MARKET AND CONSEQUENTLY, THE YEN WILL BECOME HIGH. WEST GERMANY, SWITZERLAND, AND THE NETHERLANDS, WHICH ARE ALSO SURPLUS COUNTRIES, HAVE ALL RELEASED THEIR OPERATION PROFITS TO THE MARKET, AND THEIR FOREIGN CURRENCY RESERVES HAVE NOT INCREASED AS IN THE CASE OF JAPAN.

ACCORDING TO THE GOVT SOURCE, THERE LIES, BEHIND THIS DEMAND BY THE U.S., ITS IRRITATION OVER THE FACT THAT WHILE THIS YEAR'S U.S. DEFICIT IN THE ORDINARY ACCOUNTS IS LIKELY TO GO OVER THE HISTORIC HIGH LEVEL OF \$10 BIL, JAPAN'S SURPLUS IN TRADE IS INCREASING AND IS LIKELY TO EXCEED \$10

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BIL, ON THE CONTRARY. BESIDES THIS, THERE REPORTEDLY LIES THE VIEW THAT "IF IT IS TRULY IN THE STATE OF A CLEAN FLOAT, FOREIGN CURRENCY RESERVES WILL BE UNNECESSARY."

FOR THIS REASON, THE GOVT SOURCE IS TAKING THE VIEW THAT THE U.S. CRITICISM OF JAPAN WILL GROW STRONGER IN THE FUTURE IN THE FORM OF A CONCRETE "REQUEST TOWARD GUIDANCE LEADING TO A HIGH-YEN POLICY."

THE JAPANESE GOVT IS NOW ANALYZING THE U.S. DEMAND. FOR THE PRESENT, IN THE LIGHT OF THE FACT THAT SOME OTHER SURPLUS COUNTRIES ARE RELEASING THEIR OPERATION PROFITS OF FOREIGN CURRENCY RESERVES TO THE MARKETS, THE VIEW HAS BECOME DOMINANT THAT JAPAN, TOO, SHOULD PROMOTE STUDY ON MEASURES TO SELL THE FOREIGN CURRENCIES ON THE MARKET. IN THAT CASE, BECAUSE THERE ARE SUCH PROBLEMS AS THAT THE OPERATION PROFIT IS CONCENTRATED IN SOME SPECIFIC MONTHS AND THAT IF IT IS RELEASED DIRECTLY TO THE MARKET, IT MAY POSSIBLY CAUSE A SUDDEN HIGH VALUE OF THE YEN, THE FINANCE MINISTRY AND OTHERS HAVE SHOWN A METHOD, AS A LEADING PLAN, THAT THE OPERATION PROFIT TOTALING ABOUT \$1,000 MIL A YEAR WILL BE RELEASED GRADUALLY IN AN AVERAGE MONTHLY AMOUNT. END TEXT.
MANSFIELD

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